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UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA  
OAKLAND DIVISION

TERARECON, INC., ) Case No. C 05-04407 (CW)  
Plaintiff, ) E-FILING  
vs. )  
FOVIA, INC.; FOVIA MEDICAL, INC.; ) COUNTER-DEFENDANTS' NOTICE  
KENNETH FINEMAN; ROGER KATEN; ) OF MOTION AND MOTION TO  
GEORGE BUYANOVSKY; IGOR ) DISMISS SECOND AMENDED  
OKULIST; and JOSEF GOREK, ) COUNTERCLAIMS UNDER FED. R.  
Defendant. ) CIV. PROC. 12(b)(6), AND  
 ) SUPPORTING MEMORANDUM OF  
 ) POINTS AND AUTHORITIES  
[Fed. R. Civ. P. 12(b)(6)]  
Date: September 22, 2006  
Time: 10:00 a.m.  
Place: Courtroom 2, 4th Floor  
Judge: The Honorable Claudia Wilken  
AND RELATED COUNTERCLAIM.

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## NOTICE OF MOTION AND MOTION

2 PLEASE TAKE NOTICE THAT on September 22, 2006, at 10:00 a.m., or as soon  
3 thereafter as the matter may be heard, in the United States District Court for the Northern  
4 District of California, Oakland Division, located at 1301 Clay Street, Oakland, California  
5 94612, Courtroom 2, 4<sup>th</sup> Floor, before the Honorable Claudia Wilken, Counter-Defendants  
6 TeraRecon, Inc., Motoaki Saito, M.D. and Robert Taylor, Ph.D. will bring on for hearing  
7 their motion hereby made to dismiss the Second, Third and Counterclaims for Relief of the  
8 Second Amended Counterclaims filed by the Fovia parties Fovia, Inc., Fovia Medical, Inc.  
9 (collectively, the "Fovia parties") and George Buyanovsky on the ground that they fail to  
10 state claims upon which relief may be granted. This motion is based on this notice of  
11 motion and motion, the memorandum of points and authorities, the pleadings and papers on  
12 file herein, and upon such other matters as may be presented to the Court at the time of the  
13 hearing.

## RELIEF SOUGHT

15 Counter-Defendants TeraRecon, Inc., Motoaki Saito, M.D. and Robert Taylor,  
16 Ph.D. seek dismissal of the Second, Third and Fourth Counterclaims of the Second  
17 Amended Counterclaims brought by Fovia, Inc., Fovia Medical, Inc. and George  
18 Buyanovsky, pursuant to Federal Rule of Civil Procedure 12(b)(6).

## MEMORANDUM OF POINTS AND AUTHORITIES

20 I. INTRODUCTION

21 This is an action by TeraRecon, Inc. (“TeraRecon”), a leader in 3-D medical  
22 imaging, against a company and its founding individual defendants, most of whom were  
23 employed by TeraRecon, but who are now exploiting TeraRecon’s confidences and trade  
24 secrets in competition with TeraRecon.

25 On February 6, 2006, Fovia, Inc. and Fovia Medical (collectively, the “Fovia  
26 parties”) and Buyanovsky filed a Counterclaim against plaintiff TeraRecon, Inc.  
27 (“TeraRecon”), as well as TeraRecon’s Chief Executive Officer, Motoaki Saito, M.D.  
28 (“Saito”), and TeraRecon’s Chief Operating Officer, Robert Taylor, Ph.D. (“Taylor”)

1 (collectively, "the TeraRecon parties") . After the TeraRecon parties filed a motion to  
 2 dismiss, by stipulation the Fovia parties filed an Answer and Amended Counterclaims.  
 3 Because the Amended Counterclaims did not correct the deficiencies in the Fovia parties'  
 4 pleading, the TeraRecon parties proceeded with their motion to dismiss, which was granted  
 5 on July 6, 2006.

6 On July 20, 2006, the Fovia parties and Buyanovsky filed their Second Amended  
 7 Counterclaims ("SAC"). Because these claims do not correct the problems that rendered  
 8 the Amended Counterclaims defective, the TeraRecon parties again move to dismiss.

9 As was the case with the TeraRecon parties' earlier motion to dismiss, the  
 10 TeraRecon parties are not seeking dismissal of the First Claim, for copyright infringement.  
 11 However, by this motion the TeraRecon parties seek dismissal of the other three purported  
 12 claims for relief brought by the Fovia parties,<sup>1</sup> none of which state a claim upon which  
 13 relief may be granted. These claims are strikingly lacking in relevant factual allegations,  
 14 and in some cases fail to contain accusing actions against Taylor and Saito. The Fovia  
 15 parties seek to mask these problems by substituting legal conclusions for statements of fact,  
 16 but legal conclusions are not sufficient to survive a motion under Rule 12(b)(6). The Court  
 17 should dismiss the Second, Third and Fourth Counterclaims.

18 **II. STATEMENT OF THE ISSUES TO BE DECIDED**

19 Pursuant to Local Rule 7-4(a)(3), this Motion to Dismiss raises the following issues  
 20 for the Court to decide:

21 A. Whether the Second Counterclaim should be dismissed because it fails to  
 22 state a claim upon which relief may be granted against any Counter-Defendant.

23 B. Whether the Third Counterclaim should be dismissed because it fails to state  
 24 a claim upon which relief may be granted against any Counter-Defendant.

25

26

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27 <sup>1</sup> Buyanovsky is a counterclaimant only on the Counterclaim for Copyright  
 28 Infringement, and not on the Counterclaims which are the subject of this motion.

1           C.     Whether the Third Counterclaim should be dismissed as to Saito and Taylor  
 2 because it does not ascribe any wrongful conduct to them.

3           D.     Whether the Fourth Counterclaim should be dismissed because it fails to  
 4 state a claim upon which relief may be granted against any Counter-Defendant.

5           E.     Whether the Fourth Counterclaim should be dismissed as to Taylor because  
 6 it does not ascribe any wrongful conduct to him.

7   **III. STATEMENT OF THE CASE**

8           In 1997, TeraRecon created a volume rendering apparatus that consists of a  
 9 hardware component and a software component, now named Aquarius. TeraRecon  
 10 continues to develop Aquarius and has invested large volumes of time, effort and money  
 11 from 1997 to the present on that development.

12           Defendants Buyanovsky, Kenneth Fineman, Roger Katen and Igor Okulist were  
 13 employees of TeraRecon who departed TeraRecon and set up Fovia, Inc. and Fovia  
 14 Medical, Inc. The Fovia parties develop and sell medical imaging applications competitive  
 15 with TeraRecon's Aquarius.

16           TeraRecon filed this action on October 28, 2005 against its former employees,  
 17 Fovia, and the fifth member of the Fovia management team, Josef Gorek. TeraRecon's  
 18 claims include copyright infringement, misappropriation of trade secrets, and other state  
 19 law claims.

20           On February 6, 2006, defendants Fovia and Buyanovsky filed counterclaims against  
 21 TeraRecon and added two additional counter-defendants, Saito and Taylor. Saito is the  
 22 Chief Executive Officer of TeraRecon and Taylor is its Chief Operating Officer. As  
 23 originally filed, there were four counterclaims, each of which is asserted against all three of  
 24 the counter-defendants: (1) copyright infringement, (2) violation of section 17200 of the  
 25 California Business and Professions Code, (3) intentional interference with prospective  
 26 economic advantage, and (4) negligent interference with prospective economic advantage.

27

28

1       On April 3, 2006, the TeraRecon parties filed a motion to dismiss the Second, Third  
 2 and Fourth Counterclaims.<sup>2</sup> Pursuant to stipulation of the parties, on April 10, 2006, the  
 3 Fovia parties filed Amended Counterclaims. In the Amended Counterclaims, the Fovia  
 4 parties changed some of their allegations and also dropped their claims for negligent  
 5 interference with prospective economic advantage against the individual Counter-  
 6 Defendants, Saito and Taylor. Counter-defendants disagreed that the amended pleading  
 7 addressed and cured the issues raised in the motion to dismiss, and this Court agreed,  
 8 dismissing the Second, Third and Four Counterclaims with leave to amend. See Order  
 9 Granting Counterdefendants' Motion to Dismiss Counterclaims and Granting Plaintiff's  
 10 Motion to Amend Complaint, filed July 6, 2006 ("July 6 Order").

11       On July 20, the Fovia parties filed the SAC, this time switching the order of the  
 12 Second through Fourth Claims and expanding the scope of the negligent interference claim  
 13 to include claims against Counter-Defendants Saito and Taylor:

14 15 Substantive Claim	Second Amended Counterclaims		Amended Counterclaims	
	16 Counterclaim	Against	17 Counterclaim	Against
18 Intentional interference with prospective economic advantage	Second	TeraRecon, Saito and Taylor	Third	TeraRecon, Saito and Taylor
19 20 Negligent interference with prospective economic advantage	Third	TeraRecon, Saito and Taylor	Fourth	TeraRecon
21 22 Business & Professions Code § 17200	Fourth	TeraRecon, Saito and Taylor	Second	TeraRecon, Saito and Taylor

25

26

27       <sup>2</sup> Counter-Defendants did not move to dismiss the claim for copyright infringement,  
 28 and do not seek dismissal of that claim here.

1 The SAC does not cure deficiencies in the Fovia parties' pleadings that were specifically  
 2 identified by the Court in the July 6 Order. Accordingly, the TeraRecon parties again ask  
 3 the Court to dismiss these claims.

4 **IV. LEGAL STANDARD**

5 Under Rule 12(b)(6) of the Federal Rules of Civil Procedure, a complaint (or  
 6 counterclaim) is subject to dismissal if it fails to state a claim upon which relief may be  
 7 granted. In deciding such a motion, the well-pleaded allegations of the complaint must be  
 8 accepted as true. *Pareto v. F.D.I.C.*, 139 F.3d 696, 699 (9<sup>th</sup> Cir. 1998).<sup>3</sup> "However,  
 9 conclusory allegations of law and unwarranted inferences are not sufficient to defeat a  
 10 motion to dismiss." *Id.* See *Lewis v. ACB Bus. Servs., Inc.*, 135 F.3d 389, 405-07 (6<sup>th</sup> Cir.  
 11 1998). The court may dismiss a complaint as a matter of law when there is no cognizable  
 12 legal theory to support the claim or when there are insufficient facts to support a cognizable  
 13 legal claim. *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9<sup>th</sup> Cir. 1990);  
 14 *Robertson v. Dean Witter Reynolds*, 749 F.2d 530, 533-34 (9th 1984).

15 **V. ARGUMENT**

16       A. **THE SECOND COUNTERCLAIM SHOULD BE DISMISSED  
 17           BECAUSE IT FAILS TO STATE A CLAIM AGAINST OF THE  
 18           TERARECON PARTIES.**

19       The Second Counterclaim can easily be disposed of, for the Fovia parties took no  
 20 guidance from this Court's July 6 Order, and have made no effort to correct the deficiencies  
 21 in this claim. Indeed, the Fovia parties made no changes to its allegations on this  
 22 Counterclaim.<sup>4</sup>

23       Thus, the Counterclaim continues to fail to allege any specific existing or  
 24 prospective relationships, instead merely relying on conclusory language that merely

---

25       <sup>3</sup> The TeraRecon parties strongly dispute the allegations in the SAC, and anticipate  
 26 that they will be the subject of later motion practice.

27       <sup>4</sup> For the convenience of the Court, a redline of the Second Amended Counterclaims  
 28 marked to show changes from the Amended Counterclaims is attached hereto as Exhibit A.  
 The red-line of the Second Counterclaim is found at ¶¶ 60-67 of that document.

1 repeats the elements of the tort. *See Roth v. Rhodes*, 25 Cal. App. 4th 530, 546, 30 Cal.  
 2 Rptr. 2d 706, 715 (1994). These vague allegations do not satisfy federal pleading  
 3 requirements because they fail to put defendants on notice of which relationships they  
 4 allegedly disrupted.

5 In this Court's order granting the motion to dismiss, the Court noted that the Fovia  
 6 parties were required to allege fraud with specificity, as required by Rule 9(b) of the  
 7 Federal Rules of Civil Procedure, and had not done so. The Court stated:

8 Without the intentional misrepresentation allegations that do not meet the  
 9 specificity requirements of Rule 9(b), the Fovia parties allege that the  
 10 TeraRecon parties interfered with their business relationships through  
 11 "improper means." Although the Rules do not require the Fovia parties to  
 12 describe in detail these "improper means," they must provide the TeraRecon  
 13 parties fair notice of what their claim is and the grounds on which it rests.  
 14 They do not. Therefore, the third counterclaim is also dismissed with leave  
 15 to amend.

16

17 July 6 Order at 16. The SAC does nothing to cure this defect – indeed, the allegations of  
 18 the Second Claim are *identical* to the allegations of the Third Claim of the Amended  
 19 Counterclaim. See Exhibit A at ¶¶ 60-67. As with the Amended Counterclaims, the SAC  
 20 identifies no customers with which the TeraRecon parties' allegedly interfered, no who,  
 21 what when or where of the alleged misrepresentations. In short, the Fovia parties have  
 22 utterly failed to conform its misrepresentation allegations to the requirements of Federal  
 23 Rule of Civil Procedure 9(b), or to clarify what other "improper means" constitute their  
 24 claim.

25 The Second Claim does incorporate by reference some additional allegations from  
 26 the General Allegations portion of the SAC concerning statements Dr. Saito allegedly made  
 27 to Buyanovsky in late 2001 and early 2002. See Exhibit A ¶¶ 39, 43-44. However, these  
 28 allegations add nothing to Counterclaimants' interference allegations. The alleged conduct  
 29 occurred long before the Fovia parties, who are the Counterclaimants on this claim, were  
 30 even formed, and therefore before there existed any prospective relationships which could  
 31

32

1 have been disrupted.<sup>5</sup> Therefore those allegations cannot support the Fovia parties'  
 2 interference claims.

3 Since the Fovia parties have done nothing to cure the defects in the Second  
 4 Counterclaim of the SAC, the Court should dismiss that Counterclaim with prejudice.

5 **B. THE THIRD COUNTERCLAIM SHOULD BE DISMISSED.**

6 **1. The Third Counterclaim Fails To State A Claim Against Any  
 7 Counter-Defendant, and Should Be Dismissed.**

8 The Fovia parties also made no changes to the allegations of the Third  
 9 Counterclaim, other than to *add* Saito and Taylor as individual defendants on that claim.  
 10 See Exhibit A at ¶¶ 68-77. Consequently, the Fovia parties have done nothing to cure the  
 11 defects in that claim identified in the Court's July 6 Order. In the Order, the Court stated:

12 As [the Fovia parties] note, however, this claim also alleges that TeraRecon  
 13 made misleading statements to prospective customers, in addition to  
 14 misrepresenting its rights relating to the engine. Those allegations, like the  
 15 similar allegations discussed above, are not plead with the specificity  
 16 required by Rule 9(b) and thus must be disregarded. *See Vess [v. Ciba-Geigy  
 17 Corp. USA]*, 317 F.3d [1097, 1105 (9<sup>th</sup> Cir. 2003)]. Without those  
 18 allegations, the counterclaim only states that TeraRecon has negligently  
 19 interfered with Fovia and Fovia Medical's prospective business relationships.  
 20 Conclusory allegations are insufficient to defeat a motion to dismiss for  
 21 failure to state a claim. *Epstein v. Wash. Energy Co.*, 83 F.3d 1136, 1140  
 22 (9th Cir. 1996).

23 Order at 16.<sup>6</sup> Because the Fovia parties have not corrected the deficiencies which caused  
 24 this Court to dismiss their Third Counterclaim, the Court should dismiss the Counterclaim  
 25 with prejudice.

26 <sup>5</sup> In their Answer to the Second Amended Complaint, filed June 7, 2006, Defendants  
 27 admit that Fovia (then called Voltronics Inc.) was formed on or about January 21, 2003  
 28 and that Fovia Medical was formed on or about June 14, 2004. Answer to Second  
 29 Amended Complaint ¶¶ 45, 48. This Court may take judicial notice of its own records.  
*Day v. Moscow*, 955 F.2d 807, 811 (2nd Cir. 1992).

30 <sup>6</sup> Again, the Fovia parties incorporate by reference the General Allegations, which  
 31 include additional allegations in ¶¶ 39, 43 and 44. As noted in Section V.A. above, conduct  
 32 occurring before the Fovia parties were in existence cannot support a claim for negligent  
 33 interference.

2. The Third Counterclaim Claim Fails To State A Claim Against Saito And Taylor Because It Fails To Ascribe Any Wrongful Conduct To Them.

3 The Third Counterclaim fails as to Saito and Taylor for the additional reason that it  
4 fails to ascribe any wrongful conduct to them. Indeed, neither Saito nor Taylor is even  
5 mentioned in the charging allegations of the claim. See SAC ¶¶ 69-70. While the Fovia  
6 parties allege that “*TeraRecon* failed to conduct a reasonable investigation. . .”,  
7 “*TeraRecon* lacked a reasonable basis to claim that any copying, misappropriation or  
8 misuse has occurred. . .”, “*TeraRecon* has negligently interfered. . .”, and “Fovia and Fovia  
9 Medical have suffered damages from *TeraRecon*’s misleading statements. . .”, there are no  
10 similar allegations directed at either Saito or Taylor. See SAC ¶¶ 72, 73, 77 (emphasis  
11 added). Since the Third Claim fails to allege any negligent interference by Saito or Taylor,  
12 the Third Claim of the SAC should be dismissed with prejudice as to them.<sup>7</sup>

**C. THE FOURTH COUNTERCLAIM SHOULD BE DISMISSED.**

**1. The Fourth Counterclaim Fails to State a Claim as To Any of the TeraRecon Parties and Should Be Dismissed.**

16 The Fovia parties continue to try to fit the square peg of their copyright claim into  
17 the round hole that is Business and Professions Code § 17200. They continue to fail.

18 In contrast to their approach to the Second and Third Counterclaims, the Fovia  
19 parties actually have amended the allegations in their Fourth Counterclaim, which purports  
20 to be based on section 17200 of the California Business and Professions Code, unfair  
21 competition. In particular, the Fovia parties have added allegations of false promise and  
22 misrepresentations by Saito, and allegations describing TeraRecon's advertising for its

7 In the TeraRecon parties' original motion to dismiss directed to the Fovia parties' original Counterclaims, the TeraRecon parties made this same argument. The Fovia parties then dropped Saito and Taylor from this claim in the Fovia parties' Amended Counterclaims, filed while that motion was pending. The issue thus had been mooted by the time of the oral argument on that motion to dismiss. The TeraRecon parties question whether the Fovia parties appropriately may add these individuals to these claims after those parties were explicitly dropped in response to the TeraRecon parties' earlier Rule 12(b)(6) motion. In all events, the claim should be dismissed with prejudice as to them now.

1 products.<sup>8</sup> However, even as amended this Counterclaim fails to state a claim upon which  
 2 relief may be granted.

3 First, the Fovia parties' claims of false promise and misrepresentation are  
 4 inadequate to state a claim by the Fovia parties under § 17200. Second, the Fovia parties'  
 5 expanded claims regarding advertising do not add an extra element that would avoid  
 6 Copyright preemption.

7 **a. The Fourth Counterclaim Fails to State a Section 17200  
 8 Claim Based on False Promise or Other Fraud.**

9 In their opposition to the TeraRecon parties' previous motion to dismiss, the Fovia  
 10 parties argued that they had stated a claim for "misleading promises".<sup>9</sup> In their reply, the  
 11 TeraRecon parties noted that in fact the allegations for a claim of false promise had not  
 12 been pled,<sup>10</sup> and this Court agreed. July 6 Order at 8-9. In the Fourth Counterclaim of the  
 13 SAC, the Fovia parties try to rectify that problem, but fail.

14 There is a fundamental problem with this claim. The claim is asserted by the Fovia  
 15 parties - *Fovia* and *Fovia Medical*. Yet the alleged false promises and misrepresentations  
 16 were made, not to Fovia or Fovia Medical, but to Buyanovsky. SAC ¶¶ 81-85, 89-92.  
 17 Indeed, these actions occurred at a time when neither Fovia nor Fovia Medical was even in  
 18 existence.<sup>11</sup> Buyanovsky allegedly has assigned his copyright to Fovia, SAC ¶ 27, and this  
 19 gives Fovia standing to assert a copyright claim against the TeraRecon parties, but there is  
 20 no basis for the Fovia parties' assertion of an unfair competition claim against the

21 <sup>8</sup> Because the Fovia parties have reordered their counterclaims, Exhibit A does not  
 22 reflect the actual differences between the claim as it existed in the Amended  
 23 Counterclaims and the claim as it exists in the SAC – because it shows the entirety of the  
 24 claim from the Amended Counterclaims as a deletion and the entirety of the claim as it  
 25 appears in the SAC as new matter. To aid the Court in determining the differences  
 26 between the two claims, attached as Exhibit B is a redline of only Counterclaim Four of  
 27 the SAC, marked to show changes from Counterclaim Two of the Amended  
 28 Counterclaims.

29 <sup>9</sup> Opposition to Counter-Defendants' Motion to Dismiss Counterclaims and Plaintiff's  
 30 Motion to Amend Complaint, filed April 21, 2006, at 5-6.

31 <sup>10</sup> Reply in Further Support of Motion to Dismiss, filed April 28, 2006, at 6 and note 4.

32 <sup>11</sup> See Note 5 *supra*.

1 TeraRecon parties based on alleged false promises or misrepresentations made to  
 2 Mr. Buyanovsky before the Fovia parties were formed. Consequently, the Fovia parties  
 3 cannot have “suffered injury in fact and [have] lost money as a result of” the alleged false  
 4 promises or statements. BUS. & PROF. CODE § 17204 (as amended by Proposition 64).

5 The Fovia parties attempt but fail to allege standing to assert claims based on this  
 6 conduct. In paragraph 98 of the SAC, they state: “Buyanovsky is a founder, owner and  
 7 officer in Fovia and Fovia Medical.” This allegation does nothing to save this claim.

8 The Fovia parties misunderstand the applicable legal principles.

9 It is fundamental, of course, that a “corporation is a distinct legal entity  
 10 separate from its stockholders and from its officers.”

11 *FDIC v. O’Melveny & Myers*, 969 F.2d 744, 750 (9th Cir. 1992)<sup>12</sup> (quoting *Merco Constr.*  
 12 *Eng’rs v. Municipal Court*, 21 Cal. 3d 724, 729, 147 Cal. Rptr. 631, 634 (1978). Neither  
 13 Buyanovsky’s position as founder or shareholder or officer of the Fovia parties gives the  
 14 Fovia parties standing to assert claims belonging to Buyanovsky – much less these claims,  
 15 which accrued when Buyanovsky was a TeraRecon employee, before he became a founder,  
 16 shareholder and officer of the Fovia parties.

17 The Fovia parties’ claim, if there is one, is for TeraRecon’s alleged infringement of  
 18 the Fovia parties’ copyright. They can assert no claim based on alleged statements made by  
 19 Saito to Buyanovsky in late 2001 and early 2002.

20 **b. The Fourth Counterclaim Fails to State a Section 17200  
 21 Claim Based on TeraRecon’s advertising of Its Products.**

22 As discussed in detail in the TeraRecon parties’ previous motion, state law claims  
 23 arising out of matters covered by the copyright or patent laws are preempted unless they  
 24 “contain[] an element not shared by the federal law; an element which changes the nature

25 <sup>12</sup> The Supreme Court subsequently granted certiorari to consider whether federal or  
 26 state law applied to the claims, and concluded that state law applied. *O’Melveny & Myers*  
 27 *v. FDIC*, 512 U.S. 79 (1994). On remand, the Ninth Circuit affirmed its previous ruling  
 28 and adopted its earlier opinion *in haec verba*, with the exception of Part IV.B. *FDIC v.*  
*O’Melveny & Myers*, 61 F.3d 17, 19 (9th Cir. 1995). The citation above is to that portion  
 of the earlier decision that was adopted *in haec verba*.

1 of the action ‘so that it is *qualitatively* different from a copyright [or patent] infringement  
 2 claim.’’’ *See Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1439-40  
 3 (9<sup>th</sup> Cir. 1993). Here, the balance of the allegations on which the Fovia parties rely are  
 4 simply more detailed descriptions of TeraRecon’s advertising and promotion of  
 5 TeraRecon’s own product, which Fovia claims incorporates its copyrighted Engine. The  
 6 fact that the TeraRecon advertises its Aquarius product does not insert the extra element  
 7 that the Ninth Circuit requires in order to avoid Copyright Act preemption.

8         Although the Fovia parties refuse to characterize it as such, these allegations are just  
 9 dressed-up reverse passing off claims. *See Summit Mach. Tool Mfg. Corp. v. Victor CNC*  
 10 *Sys., Inc.*, 7 F.3d at 1437-8, 1441-42. The Fovia parties simply allege – in more detail –  
 11 that TeraRecon advertises its Aquarius product, which the Fovia parties claim infringes  
 12 their copyright. See SAC ¶¶ 99-109. This is qualitatively the same kind of allegation of  
 13 misappropriation which was found to be preempted by the Copyright Act in the *Summit*  
 14 *Machinery* case.

15         The Ninth Circuit decision in *Fisher v. Dees*, 794 F.2d 432 (9<sup>th</sup> Cir. 1986) is  
 16 controlling. In that case, the Ninth Circuit held that reverse passing off – the false claiming  
 17 of authorship – was preempted by federal law.

18         Under California law, a plaintiff claiming unfair competition must prove a  
 19 likelihood of confusion by purchasers as to source. Yet this confusion must  
 20 be of a specific kind: the public must be misled into thinking that the  
 21 defendant’s product is actually the plaintiff’s. In other words, the defendant  
 must be guilty of “passing off” his product as the plaintiff’s. Here, there is  
 no “passing off.” In fact, the composers allege the opposite situation--  
 namely that Dees sells their work as if it were his.

22         Assuming *arguendo* that the false claiming of authorship constitutes a  
 23 separate tort under California law, such a cause of action is nevertheless  
 24 preempted by federal law. In *Compco Corp. v. Day-Bright Lighting, Inc.*,  
 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669 (1964), and *Sears, Roebuck &*  
*Co. v. Stiffel Co.*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964), the  
 25 Supreme Court determined that the Supremacy Clause of the United States  
 Constitution, U.S. Const., art. VI, precludes the states from protecting types  
 26 of intellectual property that are already covered by the federal copyright or  
 patent laws. *Sears* and *Compco* make it very clear that just as a state could  
 27 not encroach upon the federal patent laws directly it could not do so  
 indirectly under the guise of enforcing its laws against unfair competition  
 28 where those laws would clash with the federal objectives. The same applies

1 to the copyright statute. Accordingly, the kind of misappropriation alleged  
 2 by the composers can be redressed, if at all, only under federal law.

3 *Id.* at 440 (some citations and quotation marks omitted). *Accord Motown Record Corp. v.*  
 4 *George A. Hormel & Co.*, 657 F. Supp. 1236, 1239-40 (C.D. Cal. 1987) (Section 17200  
 5 claim preempted where the essence of the claim is that defendants allegedly used a  
 6 copyrighted work without authorization).

7 Indeed, these are the very claims of reverse passing off and misappropriation –  
 8 dressed up with a bit more detail – that the Court already has determined are preempted by  
 9 the Copyright Act. As this Court observed:

10 *The Fovia parties' unfair competition claim, founded on allegations that*  
 11 *the TeraRecon parties misrepresented that TeraRecon's 3-D volume*  
 12 *rendering software is exclusively its own product and that images in*  
 13 *TeraRecon's marketing materials were created by its own product, does*  
 14 *not address rights which are qualitatively different from copyright rights.*  
 15 Still at issue is the copyright owner's exclusive rights of reproduction,  
 16 production of derivative works, distribution, and display. See 17 U.S.C. §  
 17 106; *Wharton v. Columbia Pictures Industries, Inc.*, 907 F. Supp. 144, 146  
 18 (D. Md. 1995) (holding that the plaintiff's misrepresentation claim was  
 19 "equivalent" to the right to prepare derivative works because it concerned  
 20 the central allegation that the defendants plagiarized his copyrighted  
 21 screenplay and thus the claim was preempted); *Aagard v. Palomar Builders,*  
 22 *Inc.*, 344 F. Supp. 2d 1211 (E.D. Cal. 2004) (California unfair competition  
 23 claims were preempted by federal copyright law to extent they asserted that  
 24 defendant had reproduced and distributed claimant's architectural plans as  
 25 her own). The alleged misrepresentation claims do not add an extra element  
 26 which changes the nature of the action. See *Valente-Kritzer Video*, 881 F.2d  
 27 at 776. Therefore, they cannot be the basis for a violation of California  
 28 Business and Professions Code § 17200, and the claim will be dismissed  
 with leave to amend.

20

21 July 6 Order at 9 (emphasis added).

22 Title 17 U.S.C. § 106 gives an author the exclusive right to copy and prepare  
 23 derivative works based on the copyrighted work. Allegations that TeraRecon displayed  
 24 images using Buyanovsky's Engine on its website and advertised its products utilizing his  
 25 software design falls squarely within Section 106. See *Wharton v. Columbia Pictures, Inc.*,  
 26 907 F. Supp. 144, 145-46 (D. Md. 1995) (dismissing state law claims for misrepresentation  
 27 and fraud on preemption grounds because the claims asserted were equivalent to the  
 28 copyright infringement claims). Indeed, to find that merely advertising the allegedly

1 infringing product constitutes the “extra element” to avoid Copyright Act preemption  
 2 would eviscerate Copyright preemption entirely – every author who was accused of  
 3 infringing a copyright would independently be subject to a § 17200 claim merely on the  
 4 basis of an advertisement of the book listing the author, or a dust jacket squib referring to  
 5 the author and his book, or even the book cover which denotes the author as having written  
 6 the book. If that were the law, the Court in *Diehlsi v. Falk*, 916 F. Supp. 985 (C.D. Cal.  
 7 1996), would not have had to reach the issue whether defendants’ promise not to make  
 8 unauthorized use of the book was simply a restatement of the plaintiff’s copyright claims,  
 9 for the very screening of the television episode without crediting plaintiff as author would  
 10 have provided an independent claim of misrepresentation. *See id.* at 991-92. *See also*  
 11 *Litchfield v. Spielberg*, 736 F.2d 1352, 1358 (9<sup>th</sup> Cir. 1984) (to the extent that “state claims  
 12 for unfair competition and misrepresentation” and simply “restatements of the copyright  
 13 infringement claims, they are preempted by federal copyright law”).

14 Even as amended, the Fovia parties’ Fourth Counterclaim fails to state a claim and  
 15 should be dismissed with prejudice.

16 **2. The Fourth Counterclaim Fails To State A Claim Upon Which  
 17 Relief May Be Granted Against Taylor.**

18 The Fovia parties’ section 17200 claim does not state a claim against Taylor for the  
 19 simply reason that it identifies no allegedly wrongful conduct by him. The Counterclaim is  
 20 devoid of *any allegations directed to actions by Taylor*.

21 Indeed, the only reference to Taylor contained in the Fourth Claim is a legal  
 22 conclusion:

23 80. TeraRecon, Saito, and Taylor’s regular practice of depriving Fovia  
 24 and Fovia Medical of the value of their products and services by  
 25 misappropriating the Buyanovsky Engine for the benefit of TeraRecon’s  
 business lines constitutes an unfair business practice in violation of  
 California Business and Professions Code § 17200.

26 81. TeraRecon, Saito, and Taylor obtained the Buyanovsky Engine by  
 27 Saito’s misstatements to Buyanovsky regarding the limited uses to which it  
 would be put.

28 \* \* \*

1       89. TeraRecon, Saito, and Taylor later improperly obtained the source  
 2       code for the Buyanovsky Engine *due to Saito's further misstatements to*  
 2       *Buyanovsky* regarding the limited uses to which the engine would be put.

3       SAC ¶¶ 80-81, 89. These allegations are insufficient against Taylor, because they plainly  
 4       seek to impute to Taylor alleged conduct by Saito.

5           While the actions of an officer may in proper circumstances be imputed to his  
 6       corporation, *see FDIC v. O'Melveny & Myers*, 969 F.2d at 750, there is no legal basis for  
 7       imputing to one officer conduct of a fellow officer. Thus, the only basis for imputation of  
 8       wrongful conduct to Taylor would be by reason of Taylor's position as Chief Operating  
 9       Officer of TeraRecon. As discussed in the prior motion to dismiss brought by the  
 10      TeraRecon parties, it is well-settled that "a corporate executive will not be held vicariously  
 11      liable, merely by virtue of his office, for the torts of his corporation." *Murphy Tugboat Co.*  
 12      *v. Shipowners & Merchants Towboat Co.*, 467 F. Supp. 841, 852 (N.D. Cal. 1979), *aff'd*,  
 13      658 F.2d 1256 (9<sup>th</sup> Cir. 1981). "Their liability, if any, . . . stems from their own tortious  
 14      conduct, not from their status as directors or officers of the enterprise." *Reynolds v.*  
 15      *Bement*, 36 Cal. 4<sup>th</sup> 1075, 1090, 32 Cal. Rptr.3d 483, 494 (2005). Boilerplate allegations  
 16      are not sufficient to overcome this rule. *Id.* at 1090, 32 Cal. Rptr. 3d at 494.

17           There are no allegations at all in the complaint that Taylor personally participated in  
 18       any of the allegedly unfair conduct. The conclusory allegations that lump TeraRecon, Saito  
 19       and Taylor together (Counterclaim ¶¶ 161-62, 164-66) are simply insufficient, for they fail  
 20       to indicate any conduct on the part of Taylor that could give rise to personal liability.

21           Moreover, as noted in the TeraRecon parties' earlier motion to dismiss, to the extent  
 22       that Claim Four is an inartful attempt to allege a conspiracy, it still fails to present a  
 23       cognizable theory, for "[a]gents and employees of a corporation cannot conspire with their  
 24       corporate principal or employer where they act in their official capacities on behalf of the  
 25       corporation and not as individuals for their own individual advantage." *Reynolds v.*  
 26      *Bement*, 36 Cal. 4th at 1090, 32 Cal. Rptr. 3d at 494. There is no allegation that Taylor  
 27       acted for his own advantage. In fact, the Fovia parties tacitly admit that he did not, for the  
 28       relief they seek is disgorgement of *TeraRecon's* profits.

1           112. Fovia and Fovia Medical are without adequate remedy at law and are  
 2           entitled to other equitable relief pursuant to California Business and  
 3           Professions Code Section 17203, including restitution and disgorgement of  
 4           all TeraRecon profits associated with TeraRecon, Saito, and Taylor's acts of  
 5           unfair competition.

6           4   SAC ¶ 112.

7           5   **VI. CONCLUSION**

8           6       For the reasons set forth above, the Court should dismiss the Second, Third and  
 9           7       Fourth Counterclaims of the SAC. The Fovia parties have been represented in this action  
 10           8       by competent counsel, and this Court's July 6 Order identified the deficiencies in the Fovia  
 11           9       parties' Amended Counterclaims. Their failure to correct those deficiencies suggests that  
 12           10      they cannot. Accordingly, these claims should be dismissed without leave to amend.

13           11      Dated: August 7, 2006.

14           12

15           13      PILLSBURY WINTHROP SHAW PITTMAN LLP

16           14

17           15      By /s/ Sharon L. O'Grady

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